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Message Text

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PAGE 01 MADRID 06219 131301Z

47
ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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E.O. 11652: N/A
TAGS: ECON, SP
SUBJECT: FURTHER GOS ECONOMIC MEASURES: INVESTMENT INCENTIVES, UNEMPLOYMENT COMPENSATION, AND AGRICULTURAL ASSISTANCE.

REF: MADRID 6027

1. BEGIN SUMMARY. COUNCIL OF MINISTERS ANNOUNCED ADDITIONAL ECONOMIC MEASURES AS PART OF STEP-BY-STEP PROGRAM TO DEAL WITH VARIETY OF PROBLEMS FACING SPANISH ECONOMY. NEW MEASURES ARE DESIGNED TO PROMOTE THROUGH TAX INCENTIVES INVESTMENT IN STOCK MARKET, INCREASED SAVINGS, AND NEW CORPORATE INVESTMENT; TO LIBERALIZE UNEMPLOYMENT BENEFITS; AND TO AID AGRICULTURAL SECTOR THROUGH LOW INTEREST LOANS FOR DROUGHT-STRICKEN AREAS AND THROUGH SUBSIDIES TO COVER HIGHER FERTILIZER COSTS. END SUMMARY.

2. COUNCIL OF MINISTERS ANNOUNCED AUGUST 10 A NEW SERIES ECONOMIC MEASURES WHICH WILL GO INTO EFFECT WITHIN A DAY OR

TWO. MEASURES PROVIDE FOR ELIMINATION THROUGH 1978 OF CAPITAL GAINS TAX ON SALES OF SHARES TRADED ON STOCK MARKET. SECOND
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PAGE 02 MADRID 06219 131301Z

PROVISION WILL INCREASE TAX CREDIT TO AS MUCH AS 30 PERCENT

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006

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ON INVESTMENTS IN CERTAIN TYPES OF INDUSTRIES DETERMINED
BY THE MINISTRY OF FINANCE.

3. A MEASURE DESIGNED TO ENCOURAGE SAVINGS WILL INCREASE
AMOUNT OF INSURANCE PREMIUMS WHICH MAY BE DEDUCTED FROM
PERSONAL INCOME TAX. YET ANOTHER FISCAL MEASURE WILL
ELIMINATE CERTAIN TAXES ON AN INCREASED PERCENTAGE OF
INVESTMENTS OF NEW CAPITAL IN PRIVATE FIRMS.

4. NEW GOVERNMENT MEASURES WILL INCREASE TO 18 MONTHS,
FROM 12 MONTHS, THE PERIOD DURING WHICH CERTAIN UNEMPLOY-
MENT BENEFITS MAY BE COLLECTED WHILE AT THE SAME TIME
REDUCING BENEFITS FOR WORK INJURIES IN ORDER TO HELP
FINANCE NEW PROVISION. MEASURES WILL ALSO MAKE IT EASIER
BENEFITS.

5. IN AGRICULTURAL SECTOR PERCENT, TWO-YEAR LOANS
WILL BE GRANTED ON LIMITED BASIS, PRIMARILY TO HELP
FINANCE SEED PURCHASES FOR WHEAT AND BARLEY GROWERS HURT
BY DROUGHT. OTHER LOANS AT 4 PERCENT FOR FOUR YEARS ARE
AUTHORIZED FOR PURCHASE OF FEED GRAIN FOR BREEDER CATTLE.
IN ADDITION GOS WILL SUBSIDIZE VIA PAYMENTS TO FARMERS
LARGE PART OF RECENTLY AUTHORIZED INCREASES IN FERTILIZER
PRICES.

6. EMBASSY COMMENT: PERHAPS MOST SIGNIFICANT OF THE NEW
MEASURES ARE THOSE DEALING WITH LIBERALIZATION OF UNEMPLOY-
MENT BENEFITS, AN AREA IN WHICH MORE NEEDS TO BE DONE.
THE QUESTION HERE, AS ON OTHER MEASURES JUST ANNOUNCED,
IS WHAT THE COST WILL ULTIMATELY BE TO GOVERNMENT IN FORM
OF INCREASED DEFICITS AND INFLATIONARY PRESSURES. AS
NOTED, AT LEAST PART OF HIGHER EXPENDITURES ON UNEMPLOY-
MENT COMPENSATION IS EXPECTED TO BE BORNE BY LOWER OUT-
LAYS ON WORK ACCIDENT BENEFITS. INCENTIVES FOR STOCK
MARKET INVESTORS SEEM UNLIKELY TO PROVIDE MUCH, IF ANY,
BENEFIT TO GENERAL PROBLEM FOR INVESTING IN CERTAIN
SECTORS TOGETHER WITH ELIMINATION OF CERTAIN TAXES ON NEW
INVESTMENTS COULD BE HELPFUL. IT IS IMPOSSIBLE TO SAY
WHAT THE COST OF ALL THESE MEASURES AND THOSE FOR THE
AGRICULTURAL SECTOR WILL BE, BUT IT IS CLEAR THAT ALL
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ARE TO SOME DEGREE EXPANSIONARY, IMPLYING INCREASED GOVERN-
MENT OUTLAYS OR REDUCED REVENUES. TAKEN BY THEMSELVES THEY
WOULD APPEAR TO DEAL MORE WITH SYMPTOMS THAN WITH THE REAL
ECONOMIC PROBLEMS CONFRONTING SPAIN, BUT WITH STILL
FURTHER MEASURES EXPECTED TO BE ANNOUNCED BY GOS, IT
WOULD BE PREMATURE TO REACH OVERALL CONS. A MINFIN
ECONOMIST HAS COMMENTED TO US THAT ECONOMIC POLICY IS
CURRENTLY BEING FORMULATED IN THE PRESIDENCY AND HAS YET

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TO DEAL WITH THE KEY QUESTIONS OF MONETARY AND FISCAL
POLICY.
STABLER

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